

Agenda Item No. 7(e)

DERBYSHIRE COUNTY COUNCIL

CABINET

23 February 2016

Report of the Strategic Director – Economy, Transport and Environment

**ILKESTON RAIL STATION (HIGHWAYS, TRANSPORT AND
INFRASTRUCTURE)**

- (1) **Purpose of Report** To seek Cabinet approval to increase its maximum offer towards the funding package for Ilkeston railway station in order to permit the awarding of a construction contract and to underwrite any initial revenue deficit.
- (2) **Information and Analysis** The County Council has, for some years, taken the lead in developing plans for a new railway station at Ilkeston and has been progressing the station design and approvals and putting together a funding package. Management proposals were approved by Cabinet on 1 October 2013 (Minute No. 268/13 refers) and Cabinet received a report on the project at its meeting of 28 July 2015, approving an increase in the County Council's maximum funding to £2.264m (Minute No. 272/15). This report seeks authorisation for a further increase, for reasons set out below, and also for the underwriting of any early revenue losses, although these are unlikely to be significant.

Construction Costs

Good progress towards delivery of Ilkeston Station is being made in most respects. Work on site has already taken place through the investigation and possible stabilisation of former mine workings; this could have involved a need for the filling of voids in order to ensure stable ground beneath the Station, but no voids were encountered. This work was necessary in order to discharge planning conditions ahead of the main construction works, which will begin in March 2016, subject to confirmation that the project is fully funded. The Station will open to passengers in the late autumn of 2016, providing a major uplift in Ilkeston's connectivity and leading to significant social and economic benefits.

Confirmed financial contributions to the station project to date are:

- Nottingham Housing Market Area £1m.

- Derbyshire County Council initial approval Local Transport Plan (LTP) £2.264m.
- New Stations Fund initial award £4.574m.
- New Stations Fund/Department for Transport additional £2.100m.

This represents a current confirmed budget of £9.938m, sufficient to cover its Anticipated Final Cost (AFC) as calculated in July 2015.

Network Rail's original estimate of the time needed to finalise designs, obtain rail industry approvals and start on site has not proved achievable. A significant programme overrun has pushed back the start date by around six months and has added to the preparation costs.

In addition to this, the County Council's consultants have been responsible for producing the Station design, but the process of technical approval and sign off from Network Rail has been protracted.

The contractor's initial estimate of the cost of construction has also proved optimistic now that the designs have been finalised.

This has meant that costs have gone up considerably, comprising a mix of adjusted contractor's estimate, increased consultancy fees, Network Rail management fees and rail industry costs.

The situation is that the Government (New Stations Fund) and Nottingham Housing Market Area contributions are fixed and Network Rail has no access to funds outside its agreed delivery programmes. The County Council is, therefore, placed in the difficult position of either approving a further increase in its contribution or withdrawing from the project.

Based upon incurred costs to date and prices received from the main contractor, together with the cost of fees and contingencies, the current AFC for the station is £10.501m. There remains several ways in which efforts will be made to bring the outturn cost below the AFC:

- The AFC still includes allowances of approximately £0.281m for outstanding risks such as disruption to construction by severe weather.
- The construction contract between Network Rail and the main contractor will include a 'pain-gain' agreement, meaning that the contractor pays a directly a share of costs should these exceed the estimate supplied but shares savings where outturn costs fall below the estimate. It is, therefore, in the County Council's and the contractor's interests to keep costs to a minimum.

The risk funding represents a detailed allowance for all likely changes to the project, calculated on the possibility of this occurring and estimated cost. It is a well-trying method of calculating any project contingency.

At this stage, the funding gap between confirmed contributions and the AFC stands at £0.563m. However, during its construction phase the project will still carry the risk of unforeseen events. It is, therefore, regarded as prudent that the County Council, in addition to confirming an increased contribution of £2.827m to underwrite the AFC, identifies its own contingency allowance of a further £0.25m, making a total contribution of £3.077m. Having this in place would ensure that progress on site, in the event of the current AFC being exceeded, would not be interrupted by the need to seek further approvals.

The next stage in building the station is to agree the new budget and for Network Rail to enter into contract with its contractor. However, the option remains for the County Council to withdraw from the project and the Station will not be built. In considering this option, Cabinet should be aware that the County Council's current expenditure of £2.625m is not recoverable. This cost includes all of the preparation works invoiced to date, including:

- Consultants' design fees and investigatory works.
- County Council and Network Rail management costs.
- Contractor expenditure, e.g. site clearance, demolition, mine works stabilisation, etc.
- Planning application fees.

However, work has been continuing and the total would inevitably be higher, estimated to be at least £3m. As this would no longer be resulting in a Capital asset, it would have to be met from the income and expenditure account.

The consequences of withdrawing from the project are, therefore, significant. In reaching a decision on the issue it is also worthwhile noting that the Station should bring benefits to Ilkeston which will accrue both to the travelling public and to local government revenues. There is good evidence that new local stations result in an uplift in residential property values and in the rateable values of businesses within the affected area (generally up to a kilometre from the station). A baseline report on economic conditions in Ilkeston and a prediction of the likely economic impacts is currently in preparation. This is expected to show that there will be positive consequences for public resources in due course. It is, therefore, recommended that Cabinet approves the Council's maximum contribution to the capital cost of Ilkeston Station being increased to £3.077m (including £0.25m to be held in reserve).

Operation Costs

It is a condition of New Stations Fund support for any project that its promoter (the County Council in the case of Ilkeston) is responsible for any revenue

deficit during the first three years of operation. While efforts have been made to keep these to a minimum, two areas require underwriting in order to ensure that the Station is served by a suitable timetable of services and is maintained as a safe environment.

Firstly, with regard to stopping services, the business case for Ilkeston Station has always been built around it being served by hourly trains in each direction between Nottingham and Leeds, currently operated by Northern Rail. Before the Station opens, these will have been superseded by a service running beyond Leeds to Bradford and operated by Arriva, but with no operational changes at Ilkeston. Passenger forecasts for the Station show that it should generate substantially more revenue than the costs incurred in stopping trains, and the forecast deficit is zero, but the risk of this does need to be underwritten. There is no cap on this potential risk.

Secondly, there is, potentially, a greater risk of a revenue deficit relating to the maintenance of the Station. This will be carried out by East Midlands Trains (EMT) on behalf of Network Rail and would certainly incur a cost in the absence of any revenue from the Station's car park. However, calculations of likely parking revenue indicate that there should, in practice, be no losses. Despite this, in order to secure the maintenance agreement (without which the Station could not open to passengers), it must be underwritten. EMT has voluntarily suggested that underwriting can be capped at £50,000 in total over the three years for which the Council is required to cover costs. Allowance must, therefore, be made for this sum as a 'worst case' scenario.

While costs have risen considerably, the benefits to Ilkeston of the new Rail Station are significant. The report's recommendation is to approve the additional £0.81m Capital contribution and to approve the underwriting of operating costs, while recognising that every effort will be made to keep these costs to a minimum.

(3) Financial Considerations Allowance for an increased contribution of £0.81m from the County Council has been made through management of Local Transport Plan capital budgets, which are the source of all existing Council commitments to the project. This will mean less Capital being available for other transport and highway expenditure, such as roads and structures maintenance, road safety schemes and minor traffic projects. Furthermore, should the project not proceed, the costs to date would immediately have to be derecognised as capital expenditure and be written off to the income and expenditure account. Whilst this would make available the currently committed capital funding for use on other works, the derecognised project costs would have to be met from departmental budgets and reserves. The Economy, Transport and Environment Department's future budgets plans have not made any allowance for this. The funding for operating deficits,

should these arise in the first three years from the station's opening, can be met from the Department's Revenue Reserves.

(4) **Legal Considerations** The construction of Ilkeston Station under the New Stations Fund Programme required an agreement to be put in place between the County Council (as promoter and the holder of funds) and Network Rail (as client for the construction contract). This Implementation Agreement provides both parties with the assurance that the station will be constructed to its specified design and that funding will be supplied. Previous agreements have been made between the same parties to cover preparation stages and it is recommended that the Director of Legal Services be authorised to agree and sign the Implementation Agreement on behalf of the County Council.

The contract for the construction of the station is between Network Rail and Galliford Try. The Implementation Agreement is a contract between the County Council and Network Rail and relates to the funding of the project. The Implementation Agreement will need to be signed before Network Rail enters into contract with Galliford Try. In order to ensure that the contract between Network Rail and Galliford Try is signed as soon as possible to avoid any possible claim against Network Rail for delay in start of works on the site, the Implementation Agreement needs to be signed as soon as possible after Cabinet has given approval.

The Director of Legal Services has already provided advice on the agreements needed to underwrite possible operating losses over three years with Northern Rail and East Midlands Trains, as advised in the main text of the report. Cabinet is recommended to authorise the signing of these agreements.

(5) **Transport Considerations** The original business case for Ilkeston station calculates that around 160,000 passenger journeys will be made in the first year of its operation, and this will rise rapidly in future years. Improved connectivity to major towns and cities, such as Nottingham, Chesterfield and Sheffield, will increase opportunities for local people to access work, education and training. It will also help boost the local economy by making the town more accessible to visitors and businesses.

Other Considerations

In preparing this report the relevance of the following factors has been considered: prevention of crime and disorder, equality and diversity, human resources, environmental, health and property considerations.

(6) **Key Decision** Yes.

- (7) **Call-In** Is it required that call-in be waived in respect of the decisions proposed in the report? Yes.

The legal considerations explain why the Implementation Agreement needs to be signed as soon as possible and, therefore, it is necessary for call-in to be waived. In order to achieve this it has been necessary to request that Councillor Gillott, Chair of the Improvement and Scrutiny Committee – Places, considers the proposed waiving of call-in in respect of this report. Councillor Gillott has agreed that both the decision proposed is reasonable and that it be treated as a matter of urgency in order to ensure that the Implementation Agreement and the construction contract can be signed as soon as possible.

- (8) **Background Papers** Held on file within the Economy, Transport and Environment Department. Officer contact details – Geoff Pickford, extension 38194.

- (9) **OFFICER'S RECOMMENDATIONS** That Cabinet:

- 9.1 Approves the raising of the County Council's maximum capital contribution to the delivery of Ilkeston Station by £0.813m in order to permit the procurement of a construction contractor.
- 9.2 Approves in principle a revenue contribution to the early operation of the Station, should this be required.
- 9.3 Authorises the Director of Legal Services to agree and sign an Implementation Agreement with Network Rail under which the Station would be constructed and funded, and separate agreements with Northern Rail and East Midlands Trains over associated revenue costs.

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